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Quarterly Report to Shareholders

*For the Period Ended
June 30, 1981*

Dofasco Inc.

Hamilton, Ontario

Quarterly Report

To the Shareholders of Dofasco Inc.:

Summarized below are Dofasco's unaudited consolidated results for the second quarter and for the first six months of 1981, with comparative figures for the same periods last year (dollars in thousands) :

	Three Months Ended June 30		Six Months Ended June 30	
	1981	1980	1981	1980
Production of ingots and castings (net tons)	1,028,000	960,600	2,039,700	1,829,000
Shipments of flat rolled products and steel castings (net tons)	735,500	698,500	1,449,000	1,496,400
Sales	\$430,900	\$385,400	\$854,800	\$790,400
Depreciation	17,400	16,500	34,400	32,700
Interest on long term debt	8,400	8,000	17,600	15,700
Income from investments	9,800	5,900	18,900	11,900
Income before income taxes	69,900	53,200	136,900	115,600
Income taxes	26,600	21,400	51,600	44,700
Net income	43,300	31,800	85,300	70,900
Preferred share dividends	5,500	3,600	10,300	7,000
Net income applicable to common shares . . .	37,800	28,200	75,000	63,900
Net income per common share	\$2.34	\$1.75	\$4.64	\$3.98

Operations

Net income for the first six months was excellent. Improvement in earnings from steelmaking and Prudential Steel in the second quarter more than offset a decline at National Steel Car. Shipments of flat rolled products in the second quarter increased over first quarter levels and were also higher than the same period last year. Since orders exceeded our ability to supply, product allocations to customers were required.

Prudential Steel operated at capacity, with strong demand for its pipe and hollow structural products.

Construction Program

Initial production runs began this month on the fourth galvanizing line. This unit will increase galvanizing capacity by 35%.

We recently announced that we would proceed with the construction of a fourth pickle line. This will cost approximately \$90 million and will increase pickling capacity by 40%.

Outlook

Demand from most major steel users remains good and allocations of production will continue through the third quarter.

The need for allocations in the fourth quarter will depend on the strength of the economy and the effect of interest rates on both business and consumer spending.

Demand for railway cars is poor and National Steel Car is expected to operate below capacity for the balance of the year. The outlook for Dofasco's foundry is also influenced by the weakness of railway car business. Prudential Steel however, is experiencing strong demand and should continue its excellent performance.

F. H. SHERMAN, *President*

August 4, 1981

Statement of Changes in Financial Position

	Six Months Ended June 30	
	1981	Restated* 1980
	<i>(dollars in thousands)</i>	
SOURCE OF FUNDS:		
Operations (consisting of net income and provisions for depreciation, income tax allocations relating to future years and relining blast furnaces)	\$152,100	\$127,300
Common shares issued for cash	800	1,600
	<u>\$152,900</u>	<u>\$128,900</u>
USE OF FUNDS:		
New facilities	\$119,300	\$ 77,500
Reduction in long term debt	9,500	2,600
Dividends	41,400**	24,700
Current portion of provision for relining blast furnaces	3,100	13,900
Other changes	400	(700)
	<u>\$173,700</u>	<u>\$118,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (20,800)</u>	<u>\$ 10,900</u>
WORKING CAPITAL AT JUNE 30	<u><u>\$579,300</u></u>	<u><u>\$537,600</u></u>

*In 1981, that portion of the provision for relining blast furnaces relating to periods beyond one year is reflected in the accounts as a long term liability. The 1980 figures have been restated to reflect this new presentation.

**The regular dividends payable during the fourth quarter of 1981 on the 4¾% preferred shares, the \$2.35 preferred shares and the common shares were declared June 25, 1981. In 1980, fourth quarter dividends were declared during the third quarter.